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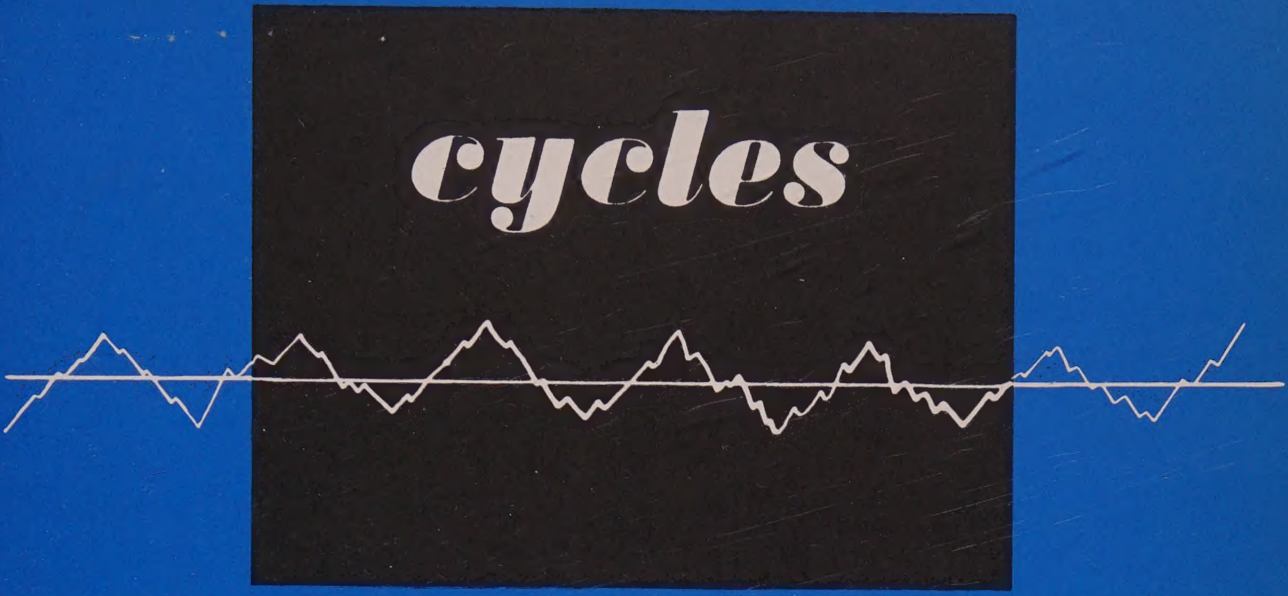

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Cycles are only *one* of the forces you must consider if you are attempting economic forecasting.

If you ignore the cycles you run the risk of serious errors.

But unless you study and weigh all the *other* forces that, in addition to cycles, combine to create economic change, you will make grave mistakes.

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ange is a rule of life . .

Cycles measure change . .

THE DIRECTOR'S LETTER

ear Member:

Sooner or later I expect a humdinger of a epression. This *could* be its start. But I on't think it is.

My views more nearly coincide with those f Dr. Geoffrey H. Moore who said recently:

"First, I think a peak in business activity as reached in or around May 1960 and that a ontraction has been under way since then. econd, there have been a few preliminary evelopments of the sort that usually precede a upturn but they are not yet decisive enough o suggest that the upturn is in sight. Third, here are some tentative indications that his contraction will be relatively mild."

Of course, these are only my *personal* views. e Foundation, being a strictly not-for-rofit scientific institution, has no views. t deals only with *fact*.

You will want to know *why* I think as I do:

. As I have told you before, certain parts f our economy tend to turn up or down before he economy as a whole. The figures that urn early are called "*Leading Indicators*." here are eight of them that are especially nportant:

Liabilities of failures
Sensitive commodity prices
Non-residential building contracts
New Orders for durable goods
Hours worked in manufacturing
New Incorporations
Stock prices
Residential building contracts

I watch these Leading Indicator figures very carefully. Until the present set-back is over, I shall publish them for you frequently so that you can too.

At the moment; three of the Leading Indicators are good; two are neutral; only three are bad.

2. I place increased reliance on the *Geisinger Indicator* of Industrial Production. It has a 100% record since its beginning in 1947.

The Geisinger Indicator started to go down in *May 1959*. It thus gave you plenty of notice of the present set-back. Since that time it has given *three consecutive danger* signals.

On the other hand, the Geisinger Indicator has not yet gone as low as it did before the set-back of 1949, 1954, and 1958. This is encouraging. This reinforces Dr. Moore's feeling that the present contraction may be a mild one.

The Geisinger Indicator should give you about five months advance notice of the end of the present set-back. It will then give you a confirming "green light" when we are really on firm ground again.

You get the Geisinger Indicator every month. *Use it!*

3. I depend a good deal upon some knowledge of "trends" and "cycles."

Business usually undulates in "cycles" above and below a central axis called the "trend." Normally these undulations keep within certain limits.

The production peak of last May was *just where it should have been.* It thus indicated that there was, at that time, no change in the underlying *trend.* This is good. A correction was in order. Until there is evidence that this correction is getting out of hand and is going to go lower than it should, you should take it in your stride.

As yet, there is no evidence that the present set-back is anything but a normal correction. However, the situation needs to be watched very carefully, month by month. When I see signs of real danger, I'll let you know.

The cycle approach is capable of considerable refinement. The cycles of different things tend to have certain regularities. As a result, it is often possible to know for considerable periods in advance *when* the turns are likely to come.

We have been reporting to you for years about the results of our research in this field. I wonder if you realize how very much we have told you? In the last year alone we have told you about cycles in the following things:

Cocoa Bean Prices
Stock Prices
Egg Prices
Residential Building
Corn Prices
Hog Prices
Wheat Prices
War
Mass Excitement
Soybean Prices
Weather
Cotton Consumption
Oats Prices
Bond Yields
Sunspot Numbers
Shoe Production
Liabilities of Failures
Liberalism versus Conservatism
Consols
Durable Goods Orders
New Incorporations
Sugar Prices
Non-residential Building
Earthquakes
The Russian Economy
Candy Sales
Freight Car Installations
Copper Shares Prices
Cattle on Farms
Lead Prices

Add all this to what we have told you in previous years and you have quite a body of knowledge to help you see into the future. I can't recap it all here. Like a bank of elevators, some are going up; some are going down.

There are other methods to outguess the future too. I like every scrap of information I can get my hands on.

4. The *rate* of advance or decline of business usually slacks off 6 or 8 months before the actual top or bottom. (The rate of advance or decline is merely the percentage change from month to month.) We publish these rate of change figures for you every month, as you know. The rate of decline has *not yet* started to slack off. This is a *bad* sign. I'll keep you posted.

5. I like the principle of *Contrary* opinion. The general public is mostly wrong. I like in one way or another to evaluate what the public thinks is going to happen—then I often reverse it!

6. Tests show that business men are as bad as anyone else in guessing what's ahead for general business. (Economists are bad, too.) However a business man is often fairly good in guessing what's ahead *for his own business.* So, if each kind of business man is asked what's ahead for *his own business*, and these answers are added up, we can get some sort of notion of what's ahead for business as a whole. We get these figures every three months. They are called Business Men's Expectations. They are not as good as the Geisinger Indicator, but they supplement it.

7. You may have wondered why I haven't mentioned *brains* as a method of figuring out the future. It's no lack of respect for brains, I assure you. Nothing is better, *if* you have enough of them. I haven't! That's why I have to use the methods I have named above.

If you have brains to figure everything out, it's wonderful, and I really mean it. But if, like me, you feel the need of a little help now and then, you probably find our monthly reports useful!

Cordially yours,

Edward R. Dewey

Director

EEF CATTLE PRICES –

YEARLY CYCLE CONTINUES UPSIDE DOWN

by Gertrude Shirk

The seasonal or 12-month cycle in beef ttle prices has been running upside down r the last three years—1958, 1959, and 60.

Normally, beef prices are low in the early nths of the year, then rise to higher levels ring the August-September period, and finally ll off again toward the end of the year. is low-high-low pattern over each year has en the normal, usual, typical behavior for ef prices repeatedly over most of the sixty ars since 1900.

A yearly cycle in an agricultural series about as dependable as the swing of the asons, so obvious in fact that such a cycle one of the few cycles about which we would t receive *any* arguments. That such a cycle present in beef prices is certainly not ws. But it is necessary to have a definite cture of just what this normal pattern has en in the past years, and how well it has rked, before we can find out what the cur- nt distortion amounts to.

Figure 1 below shows the average yearly pattern of beef cattle prices from 1900 through 1957. The plots on the chart are percentages of trend. The plot for January, for example, is 96.4% of trend, and it means that, on the average, since 1900, the January price has been 3.6% below the trend. No effort has been made to "idealize" or force the pattern. This picture shows just the way it happened, on the average. (One modification was made—the five highest and five lowest values were excluded from the averages. That is, all the January figures were averaged *except* the five highest and five lowest. So actually, the picture shows just the way it happened about 80% of the time, and excludes any distortion that might be caused by extreme values.)

The line on Figure 1 shows February as the low month of the year, and August or September as the peak months of the year, on the average. If we check the actual change in beef prices from February to August or September for each year beginning with 1900 we find only five years when prices went down instead of up, one year of no change, and two years of less than 1% increase. Of all 61 years, the average increase from February to August or September

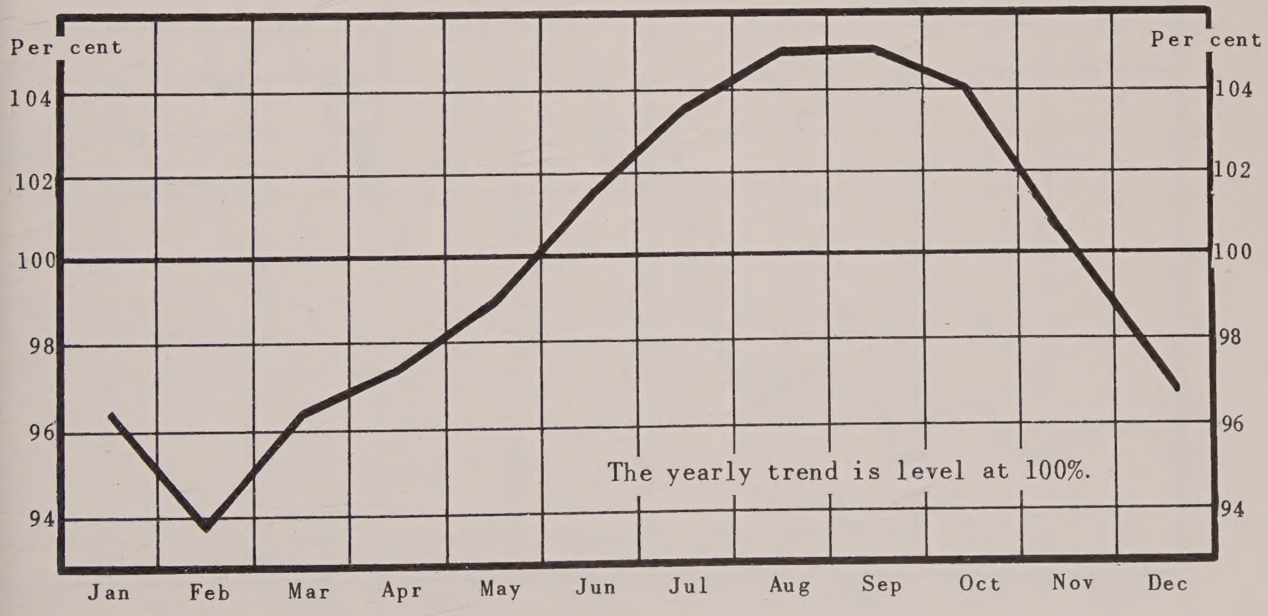


FIG. 1: 1900-1957 AVERAGE YEARLY PATTERN OF BEEF CATTLE PRICES

(whichever was higher) was 15.2%. The medium increase was 13.0%. If the ten extreme highs and ten extreme lows are dropped from the calculations, the average increase was 14.5%. If absolutely no other information were available about beef prices, and no other factors considered, a knowledge of this cycle alone would have been profitable, in the long run, over the years. Of course, in a few years there would have been losses. But, on the other hand in a few years the gains would have been over 30%. The occasional losses are cancelled by the occasional excessive gains.

Yet, despite the good record this cycle apparently has made since 1900, it has been running upside down for the last three years in a row. An expert on beef prices might have a ready explanation for this reverse pattern, and such an explanation might give a clue as to whether this is a permanent change.

If you compare the overall yearly pattern based on the average past experience against the actual price record since 1900, you do not find another case of three reverse years in a row. During the thirties there were two "bad" years together, (1935 and 1936), but this is the only other case of there being more than one year at a time where the actual price record and the average yearly pattern did not follow roughly the same contour.

Figure 2 below illustrates the comparison between the contours of the lines of actual prices and average past behavior. The solid line shows the average monthly price of beef cattle at Chicago. The broken line represents the yearly cycle. The yearly cycle is drawn for the pattern only, and no scale is given on the chart for it. The amplitude is made large enough so that the eye can follow the cycle easily. The dollar scale shown on the chart applies only to the beef price line.

Price behavior over each year is checked against the contour of the pattern, and a rating, good, bad, or indifferent, is given to the cycle performance in the actual prices. These ratings are marked on the chart.

Of course, this is a highly subjective process, and the conclusion about each year is partly a matter of opinion. However, of the 61 years to be considered, only 15 are rated definitely "bad." A total of 32 are rated "good," and 14 are "indifferent," or neither good nor bad. Three of the 15 years in which the cycle was not at all visible, or else was completely upside down, were the

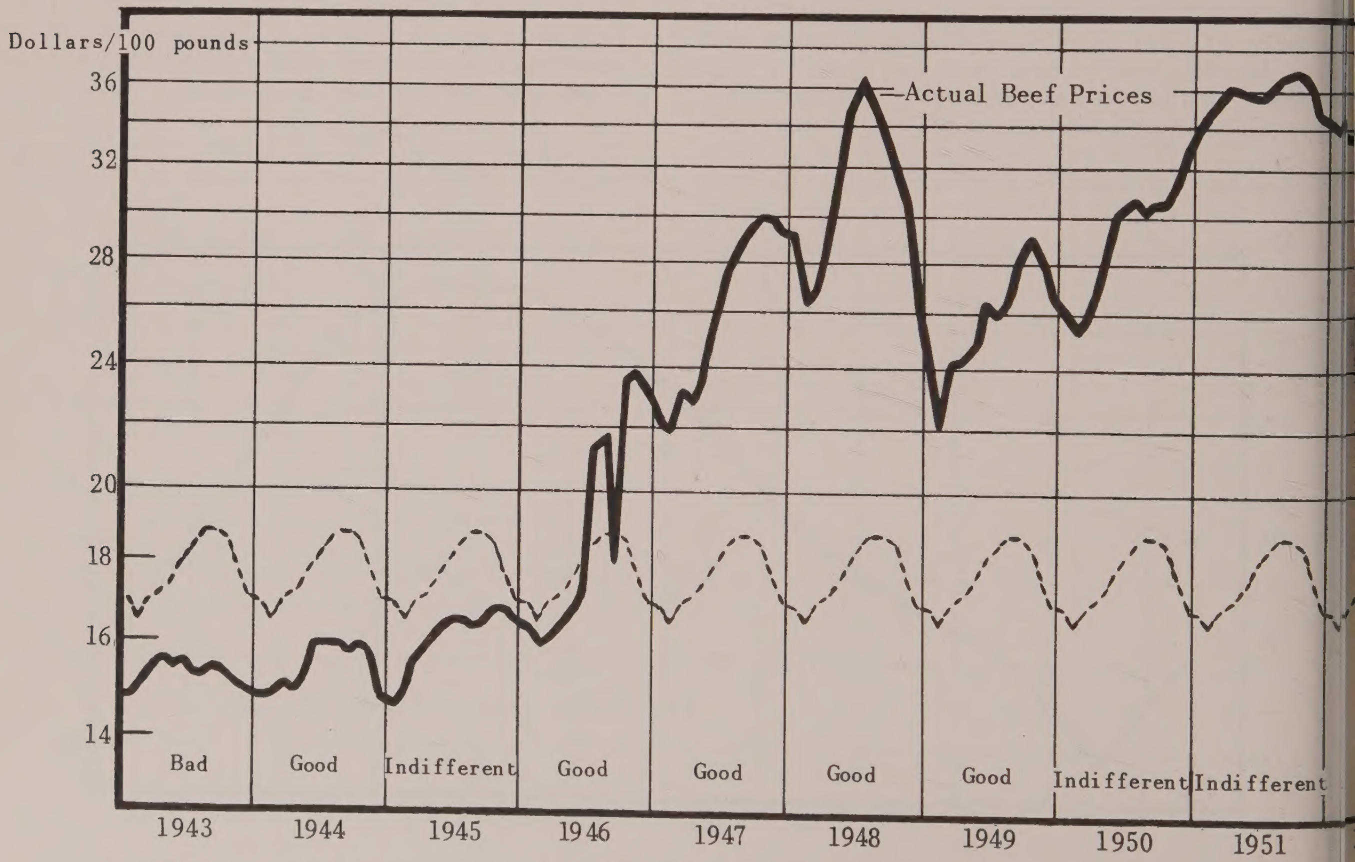


FIG. 2: THE MONTHLY AVERAGE PRICE OF BEEF CATTLE COMPARED

last three years, 1958, 1959, and 1960.

If the reversal in pattern that occurred during the last three years is not the result of a basic change in the beef industry, then the cycle can be expected to return to its usual course. In fact, you would suspect that such a change back to the usual pattern is overdue. But you have to wait to see it before you can again rely on it.

If beef prices go down to a low point in February, and then turn up again in March or April, this turn-up in spring would perhaps signal the reappearance of the usual low-high-low seasonal cycle. A simple plotting of the month-to-month average beef price against the seasonal pattern shown on the chart will reveal when it is again safe to rely on this cycle.

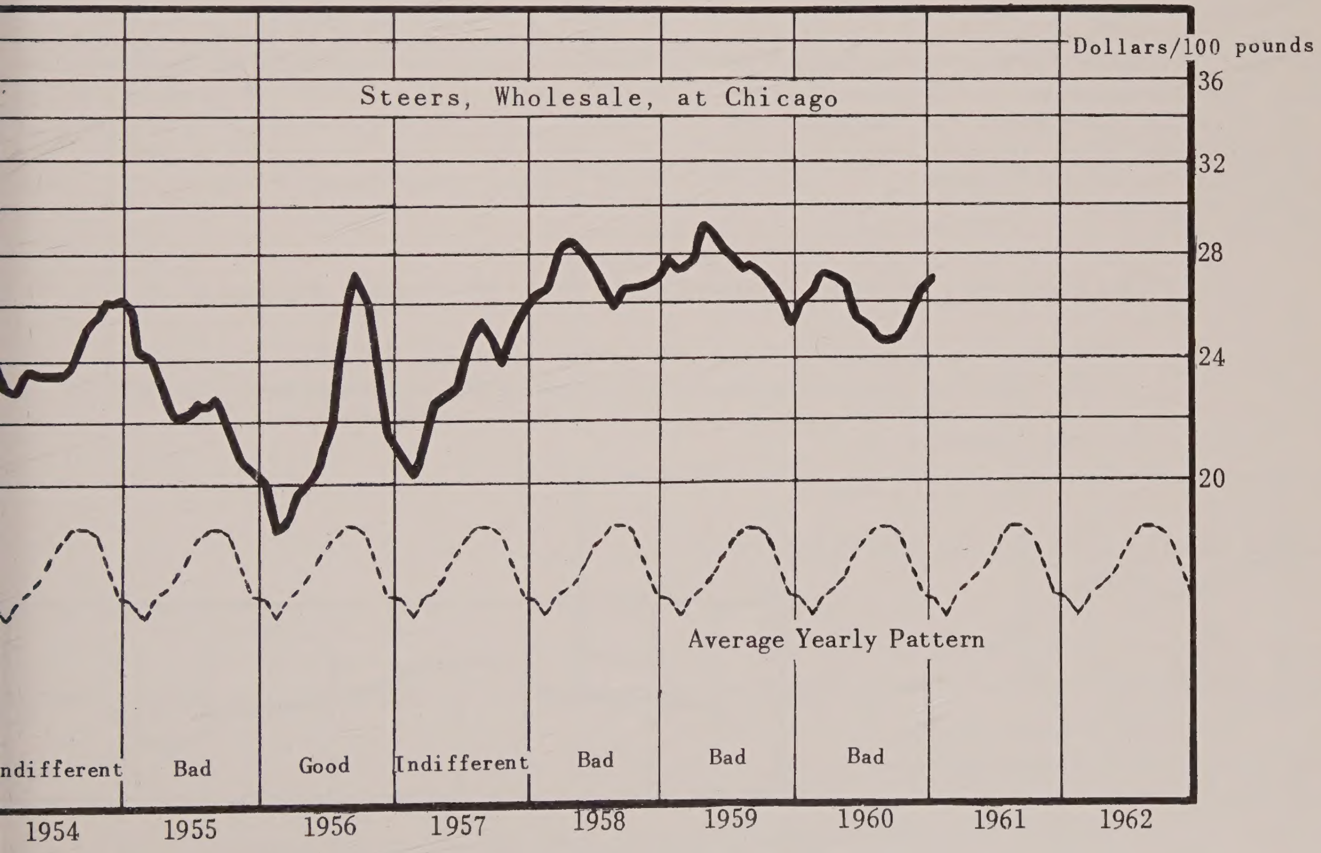
When it does appear safe, the cycle can then be applied to the yearly trend level you expect. That is, the low-high-low pattern will revolve around a basic underlying trend of prices.

I usually try to show more than just a simple yearly cycle, and at least to go into possible trend levels. However, the unusual and long-continued upside down status of this cycle forces our attention on this fact alone. The questions of why this pattern is upside down at the moment, and when it will revert to its normal course, may indeed be *the* most important questions to consider about beef prices right now.

The pattern that was established by actual price behavior from 1900 through 1957 is as follows:

Month	% of Trend	Month	% of Trend
Jan	96.4	Jul	103.5
Feb	93.8	Aug	105.0
Mar	96.4	Sep	105.0
Apr	97.3	Oct	104.0
May	98.9	Nov	100.2
Jun	101.4	Dec	96.6

Unless a valid explanation can be given by the experts on beef prices as to why the above pattern may not be reestablished, it is only reasonable to assume that it may shortly reassert itself. It would require very basic changes in the processes of an industry to permanently change a pattern that has persisted since 1900.



GE YEARLY PATTERN

POSTSCRIPT TO:

"MY THIRTY YEARS' STUDY OF STOCK MARKET CYCLES"

In the February issue of *Cycles* we printed, "My Thirty Years' Study of Stock Market Cycles," by Anthony Gaubis. In it Mr. Gaubis discussed the use he has made of the ten-year pattern of stock prices over thirty years of actual practice, and the methods by which he confirms or modifies his conclusions based on the pattern by the consideration of other pertinent data.

To complete the February presentation we are printing below the ten-year pattern as worked out by Mr. Gaubis.

The pattern is computed in this manner: The value for each month is considered as a percentage of the value for the previous December. The January percentages for the "I" years in the past decades are then arranged in order of level or magnitude, and the average of the middle three values is used as representing the typical relationship for the January of the "I" year in the pattern, with the same procedure followed for the other months in each series of years.

Of course, the individual months are not important to the discussion, and the January case was mentioned just to illustrate the method. What is important is the general slope of the line for each year. For example, the (modified mean) slope for the third year in the pattern is steadily down.

In addition, as is noted alongside the chart, when *all* the third years are considered, 7 went down from December to December, and only 2 went up. The figures on which the charts are based are Standard & Poor's Combined Index.

The method used by Mr. Gaubis has several advantages. First, it eliminates trend. You will remember the previous ten-year pattern chart showed a very strong up-trend. Second, this method eliminates statistical distortions by eliminating extreme years from consideration. By selecting the middle three values the extreme cases, as 1931 or 1933, are eliminated from the average. Third, this method introduces immediacy to the pattern by putting everything into terms of what it was the previous December.

As Mr. Gaubis pointed out in his talk, this pattern has worked for him in actual practice for thirty years, but only because he double checks his conclusions against other relative factors, especially the relation of current business activity to long-term growth, and changes in the supply and demand of credit.

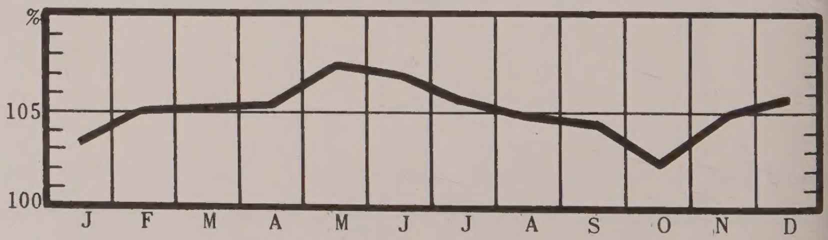
He thinks of his Timing studies illustrated here as indicating the lines of *least resistance*, but not the *extent* of possible price changes, and points out that a knowledge of *patterns* might tend to stabilize prices, and help reduce exaggerated swings. *G.S.*

The Year—by—Year Pattern of the 10—Year Pattern

Monthly values are percentages of the previous December. The 100 line represents the level of the previous December, and the individual months are shown as being above or below that level.

1. The Modified Average of the "1" Years

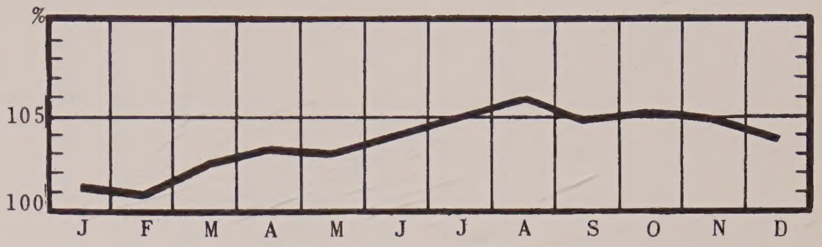
Of all 9 decades
7 of the "1" years were up
2 of the "1" years were down
from December to December



The market tends to be irregular in the "1" year of each decade as in 1901, 1911, 1921, 1931, 1941, and 1951.

2. The Modified Average of the "2" Years

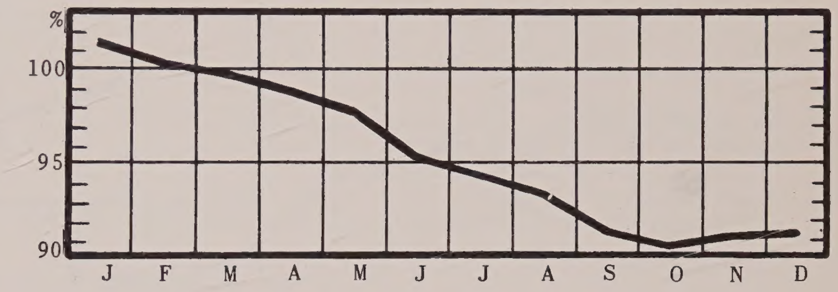
Of all 9 decades
7 of the "2" years were up
2 of the "2" years were down
from December to December



There is a definite tendency for the stock market to advance in the second or "2" year of each decade, and especially in the latter part of the "2" years.

3. The Modified Average of the "3" Years

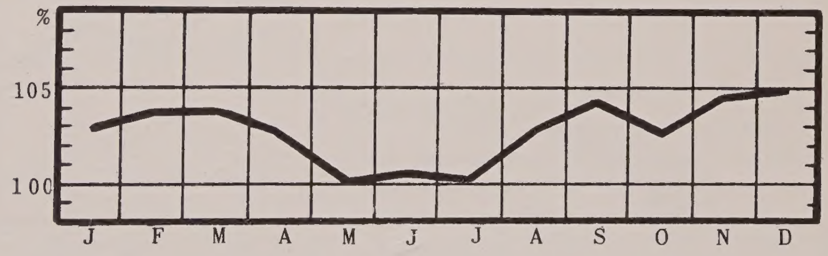
Of all 9 decades
2 of the "3" years were up
7 of the "3" years were down
from December to December



There is a definite tendency for the stock market to reach an intermediate peak in the early months of the "3" years, with the exact timing of the high depending in part on whether the advance started early or late in the preceding two years taken as a whole.

4. The Modified Average of the "4" Years

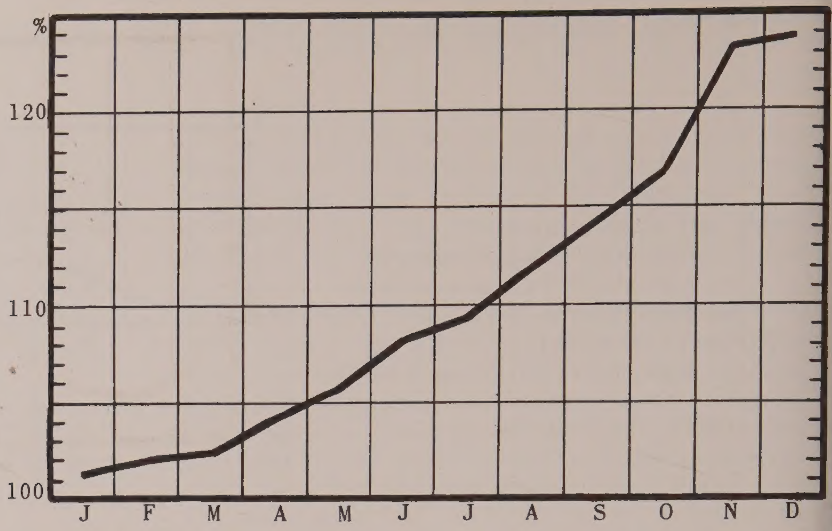
Of all 9 decades
5 of the "4" years were up
4 of the "4" years were down
from December to December



Stock market trends tend to be irregular in the "4" year of each decade, but definitely upward in the last half. These rises almost invariably carry through the "5" or fifth "decennial" year and into the "6" year.

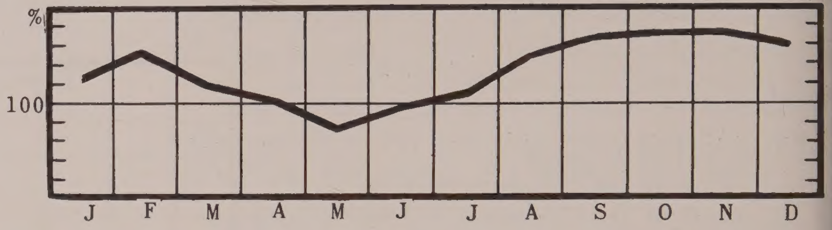
5. The Modified Average of the "5" Years

Of all 9 decades
8 of the "5" years were up
1 of the "5" years was down
from December to December



6. The Modified Average of the "6" Years

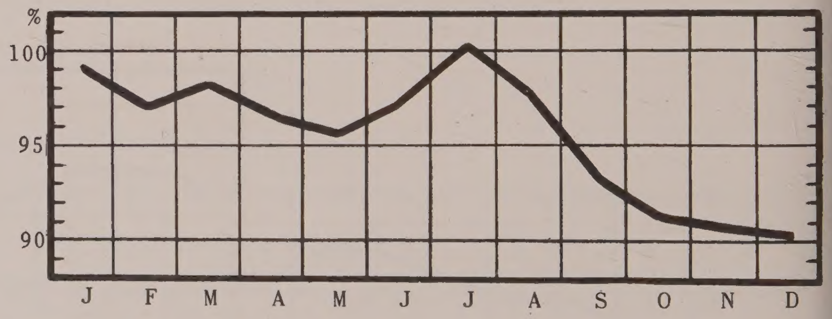
Of all 9 decades
6 of the "6" years were up
3 of the "6" years were down
from December to December



The stock market almost always runs into trouble early in the sixth year, if the trend has been definitely upward in the two preceding years, but with the highs being deferred until late in the "6" year if the market had lost ground on balance during the fourth year instead of moving up sharply from the lows made late in the "3" year.

7. The Modified Average of the "7" Years

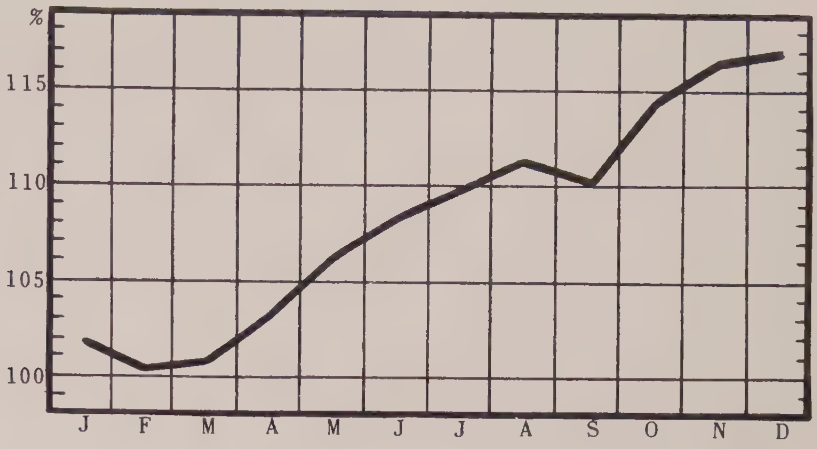
Of all 9 decades
2 of the "7" years were up
7 of the "7" years were down
from December to December



We should look for a decline in the seventh year of each decade unless a sufficient readjustment had occurred in the previous twelve months to bring about a definite easing of credit as well as an opportunity to buy leading stocks at 25% to 40% below their previous peaks - as was true in 1926.

8. The Modified Average of the "8" Years

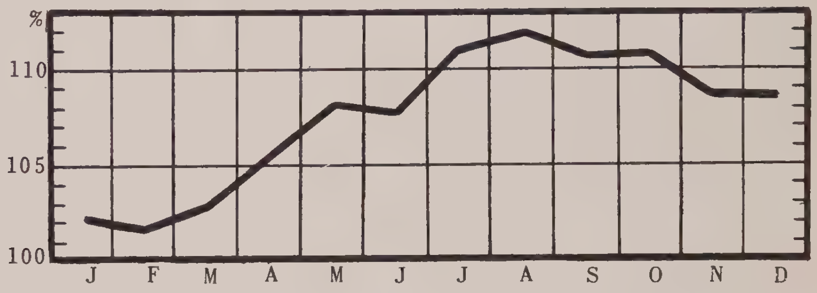
Of all 9 decades
8 of the "8" years were up
1 of the "8" years was down
from December to December



The line of least resistance in the market can be expected to be upward through the eighth year of each decade, and into sometime between August and November of the ninth year.

9. The Modified Average of the "9" Years

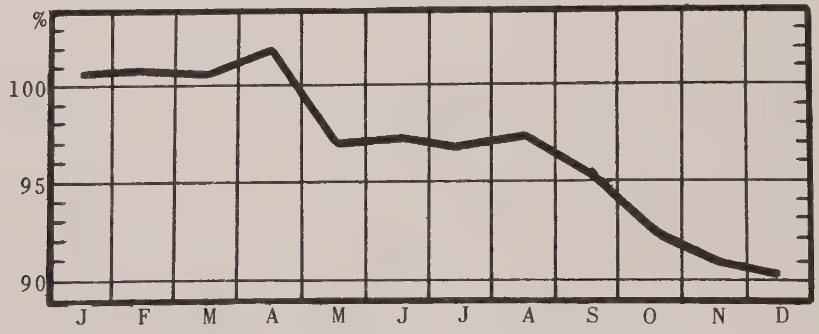
Of all 9 decades
7 of the "9" years were up
2 of the "9" years were down
from December to December



From a strictly Timing point of view, the line of least resistance in the stock market might normally be expected to be downward following an upward trend into the late summer or early fall of the ninth year of each decade.

10. The Modified Average of the "0" Years

Of all 9 decades
3 of the "10" years were up
6 of the "10" years were down
from December to December



The major portion of a decline from whatever high is seen late in the ninth year is normally completed by sometime late in the following or "0" years. *A.G.*

Letters to the Editor

The Gaubis Talk

Dear Mr. Dewey:

Yesterday I read your February 1st *Cycles* from cover to cover. Very much enjoyed your remarks and comments as I always do. Especially enjoyed reading the address which Mr. Anthony Gaubis made before your group in New York recently. It was very interesting. I can heartily agree from my own experience with so much of it. Also was glad to get a more intimate insight of the man from his address.

San Francisco — Paul A. Pflueger

* * *

Dear Mr. Dewey:

Permit me to congratulate you on the February issue of *Cycles*. It is the most interesting number I've seen since 1951. I was particularly interested in Mr. Gaubis's statement on the top of the second column of page 32. In as much as 65% of our manufacturing products are from annual crops, (35% being from mines, forests, and fisheries) crop yield dependent on rainfall becomes doubly important. The best measure of rainfall in that part of the U.S. which contains 45% of its population and 55% of its manufacturing (the Great Lakes Basin) is the level of Lake Michigan and Lake Huron.

Port Huron, Michigan — E. W. Kiefer

The F. R. B. Index

Dear Sirs:

The Geisinger Indicator which appears each month in *Cycles* also shows the F.R.B. Index of Production on a 1947—49 basis.

Now that the F.R.B. has more or less adopted 1957 as the official basis (although it still publishes the 1947—49 Index), are you planning in the future to show the comparison of the 1947 Index with the Geisinger Indicator?

Perhaps there would be no difference in the relation. However, the 1957 base is pretty recent and probably reduced the sensitivity of the Index. Perhaps the F.R.B. has not figured the Index on a 1957 base back to 1947 to which you have plotted the Geisinger Indicator.

Foxboro, Mass. — W. E. Booth

Comment: In 1959, when the Federal Reserve Board revised their Index, the previous 1947—49 Index was shown raised to higher levels in the later years. We felt there would be enough confusion created just by the simple upward revision of what we had always used. Also, it seemed that for our more sophisticated readers the main point of the revision (i.e., the higher levels in later years based on higher benchmarks) should not be obscured by a switch in the base period at the same time.

Of course, there are arguments in favor of both base periods. The 1957 Index is available back to 1947 but we decided to stay with the previous base for the time being. You are right in that the 1957 figures have more immediacy. But when we use the F.R.B. Index over a long historical period we might prefer the previous base. *G.S.*

The Business Cycle

Dear Mr. Dewey:

In my reading, I keep coming across comments on the business cycle. Enclosed is Miss Sylvia Porter's reference to the cycle.

Would it be possible for us to be updated, in the near future, with an article on the subject?

Arlington, Virginia — Frank M. Berg

Comment: The best information I know about what's ahead for general business is provided by the Geisinger Indicator to be found each month in the back of *Cycles* magazine.

Also, the whole of the January issue was pointed towards answering this very question. The May issue will also be devoted entirely to covering as much of the current situation as possible. *E.R.D.*

he Strieff Analysis

Dear Mr. Dewey:
The article on the Strieff Analysis of the Dow-Jones Industrials by Miss Shirk in June 1960 *Cycles* leads to a moderately good forecast for the last half of 1960.

Very roughly extrapolating the three cycles and trend to the end of 1960, and then combining them, I obtained a predicted high for the average of 649 in July (actual high close, 641.6, 8/24), a low of 611 in September-October (actual low, 569.1, 9/28), and then a rise to 625 at the end of the year (actual 617.8, 12/26).

Since the extrapolations were done by eye, and crudely at that, the agreement may be somewhat fortuitous, but it would be interesting to see what the data through the end of 1960 would show when extrapolated to the middle of this year.

Baltimore, Maryland — Leonard H. Cohan

Comment: Our present plan is to include the Strieff Analysis, brought up to date, in the stock market section of the May issue. *G.S.*

Carrier

Dear Sirs:
I would like to see a step by step operation from start to finish with your calculations showing how you arrive at the chart and the tables.

Millbrae, California — Harry Puccetti

Comment: We hope sooner or later to include a technical section along with any article such as the one on Carrier so that any reader can pick it up and carry it forward. *G.S.*

* * *

Dear Mr. Dewey:
I was much interested in the article on the yearly cycle in Carrier in the February number of *Cycles*. I wonder if this is not another statistical evidence of what you have called the "folk lore of the street." We have heard it said that the time to sell the "hot weather stocks" is in the spring and buy them in the fall. I think you may find that other air conditioning stocks such as Trane and Fedders show signs of a similar seasonal pattern when you eliminate their secular trend which happens to have been more strongly upward than Carrier's.

Then if you will take a look at the soft drink stocks, Coca-Cola and Pepsi-Cola, you may find a similar seasonal pattern superimposed on their longer term trends. Coca-Cola's long-term trend was down from 1946 to 1957 then sharply upward. Pepsi-Cola's trend was down from 1946 to 1949 then up at an increasing rate to the present time. Both stocks have shown some tendency to tops in the spring and lows in the fall, which should show up in monthly *average* studies and be useful for background information, although for investment or even trading purposes it would have been more important to rely on a correct interpretation of the longer term trends, going long say in 1957 and staying long up to now, disregarding the seasonal pattern. It will be interesting to see if a sale at the normal peak will prove wise this spring.

New York, New York — George B. Seager

* * *

Dear Mr. Dewey:
The article on Carrier brings to mind considerations which some experience has intensified. I feel that the attempts to find pure rhythms in indexes like the Dow-Jones and S. & P's. 500 fall down because they are made up from stocks in various industries having different timing lags or advances and I am therefore glad to see you tackle an individual stock now and then. Where studies of the indexes are weakest in my opinion are the shorter cycles. I have tried several times with industrial stocks specializing in a restricted product. For example, inspired by your rayon study years ago, I worked with Burlington Mills prices but they diversified and my results became less useful and were finally abandoned.

In 1959 I studied Beech Aircraft and profited both mentally and materially from it but my most useful cycle reversed and I have never been able to determine the components of the reversing cycle. I suspect there are three, two of which are short and very nearly the same length. I tried using daily instead of weekly data and got nowhere.

The present market baffles me. Fundamentals seem adverse: unemployment a long range continuing problem, but purchasing power, consumer debt, etc., do not reflect it much. I do best when I ignore fundamentals and read my charts more objectively, sometimes using Rutherford's methods and sometimes using a hodge podge of methods learned from others, combined in various ways which are probably unorthodox.

Winter Park, Florida — E. Munroe Bates

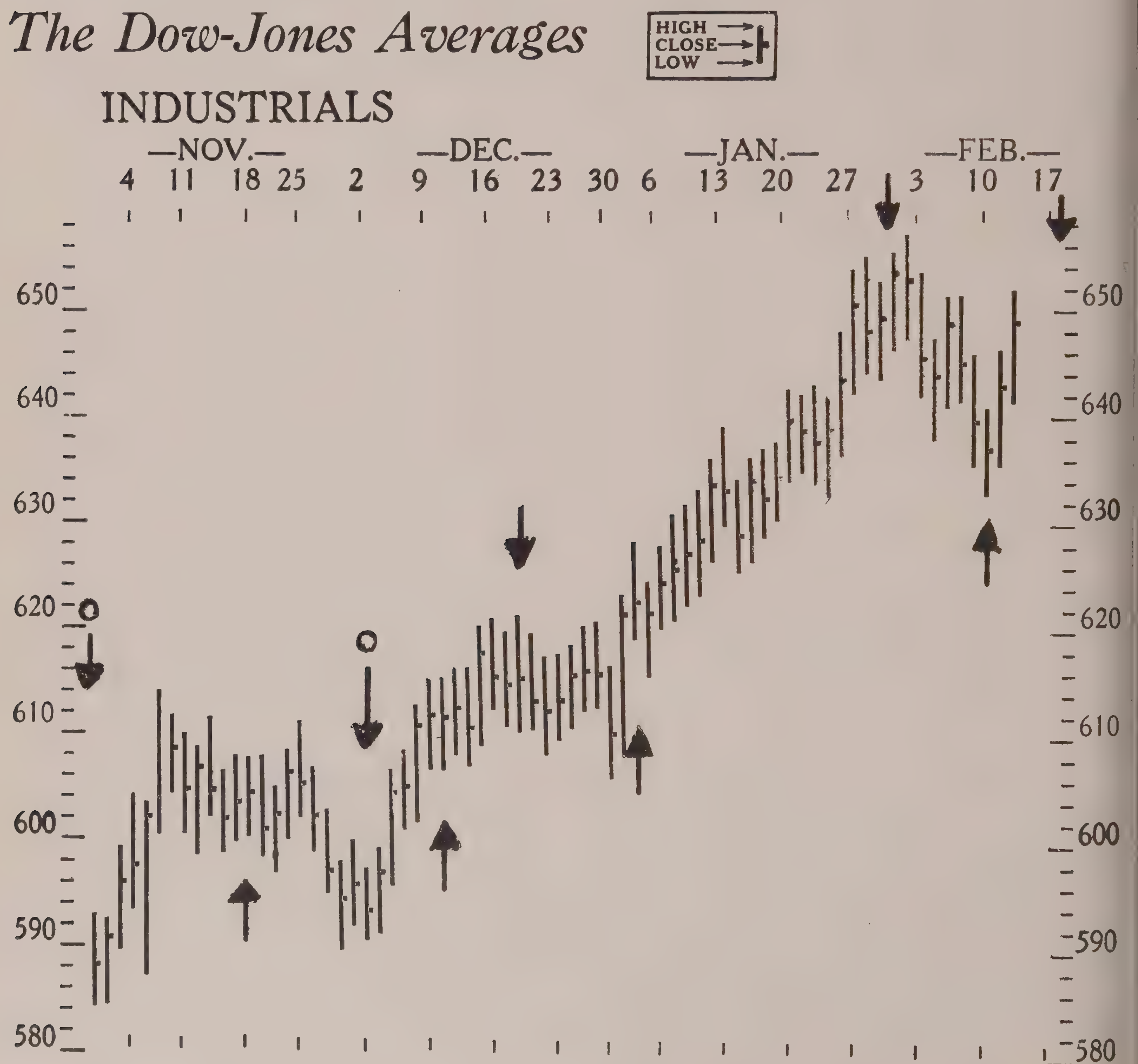
Time and time again. ◆

BY GUSTAV GUMPERT

Showdown

The time for a showdown on the little cycle prediction experiment we've been conducting in this column has finally come. The accompanying chart shows you the Dow-Jones Industrial Averages (as plotted by the *Wall Street Journal*) for nearly a four-month period. The arrows are our signals. An arrow pointing up means that's the way we expected the market to move; an arrow pointing down means we expected a decline.

Out of the nine signals shown on this chart, two of them (the ones with the zeros above them) look like perfect misses, while the others seem pretty good. This is being written on February 16, so that the signal for the 18th can't be evaluated. Here are the March signals: 2-10, up slightly; 10-16, down sharply; 16-21, sidewise; 21-31, up sharply.


The Dow-Jones Averages

The Cycle Round-Up

Judging from the letters we receive, most of our members are interested in the stock market, commodity prices, and the general business outlook, in about that order. But a surprising number of our non-scientist members are also interested in cycles in natural science, especially cycles in weather and sunspots. Therefore, we are including the sunspot chart in this month's Round-Up.

In addition, this month we review unemployment and egg prices.

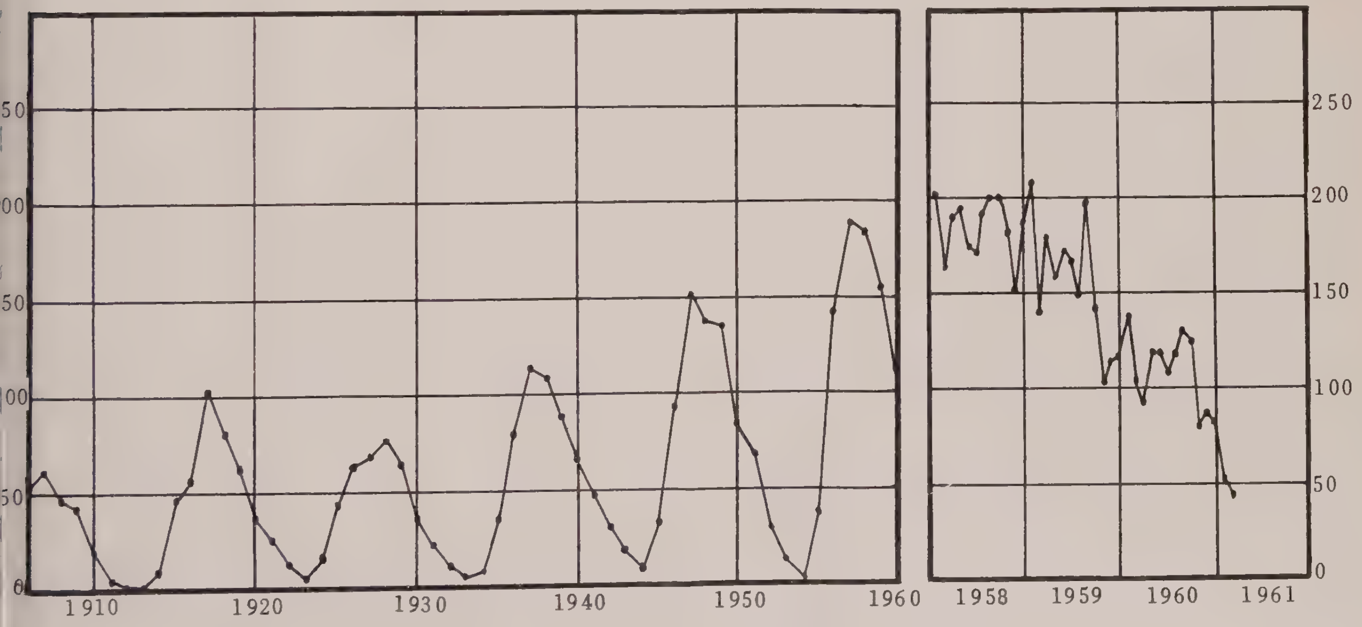
* * *

SUNSPOT CYCLE GOES DOWN

The sunspot cycle at the present time is on the way down from the last peak which was the year 1957. In 1957 the yearly average was 189.7. The average for the year 1960 was 109.2. The next peak year should be about 1968, 11 years after the last peak.

The recent monthly sunspot numbers are:

1960-Jul	119	1960-Nov	87
Aug	131	Dec	83
Sep	125	1961 Jan	53
Oct	81	Feb	43



ZURICH RELATIVE SUNSPOT NUMBERS

UNEMPLOYMENT: CYCLE AND TREND UP

The chart below is a picture of unemployment —people out of work. It shows the percentage of the civilian labor force that is not employed. When the line on the chart is high, things are bad. When the line goes down, things are improving.

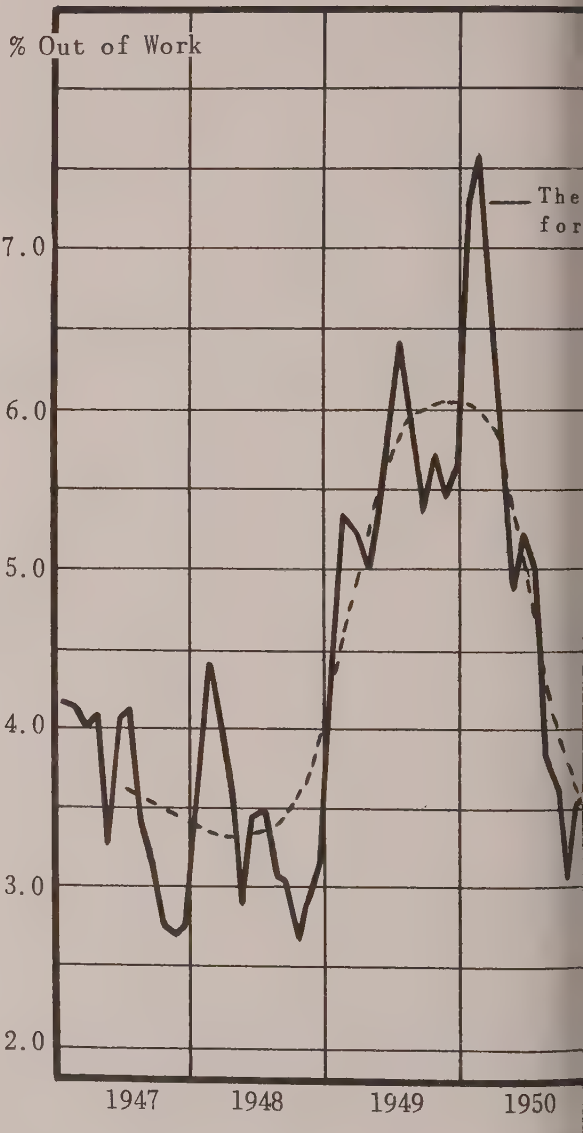
Any discussion of unemployment lends itself readily to a confusing emotionalism and even deliberate distortion. When we have talked in the past about unemployment, we have stressed the importance of knowing about the seasonal cycle in these figures. It is very easy to forget that some monthly ups and downs in employment are normal and to become confused about what part of any change may be due to the seasonal cycle, and what part may be due to recession or recovery.

The typical pattern, shown as a percentage of the yearly trend, is given in the table. This seasonal cycle rotates around the axis of the yearly trend. Also shown are the recent actual per cent of trend figures. The change from month to month, both typical and actual, are also shown.

Month	Typical UN-employment % Of Trend	Typical Monthly Change	Actual UN-employment % of Trend	Actual Monthly Change
Jul-1960	95		98	
Aug	91	-4	91	-7
Sep	88	-3	81	-11
Oct	82	-7	83	+ 2
Nov	92	+12	91	+10
Dec	95	+3	102	+12
Jan-1961	117	+23	120	+ 18

In looking at these figures keep in mind that trend is held level at 100%. You will see that the worst month, with respect to typical change from the previous month, was December. Instead of going up 3% unemployment went up 12%, (in addition to the trend increase). The trend around which the monthly figures oscillate is shown on the chart by the broken line. An examination of the trend line reveals a development which may be a separate situation from the current recession. The recovery from the 1949 recession was completed by 1953 when unemployment was reduced to around 2.5%. The 1956 recovery from the 1954 recession shows a higher level of unemployment at around 3.75%. The 1959—60 recovery from the 1958 recession shows an even higher level of unemployment at over 5.25%. The last two boom periods, 1956 and 1959—60 have had higher and higher levels of unemployment. This may be a more serious long range problem than the current 5,385,000 figure of people out of work. Automation and economic rigidities may be giving the economy a steadily growing up trend of people out of work—even at boom periods.

The estimated yearly trend of the percent-



THI

Research by Staff

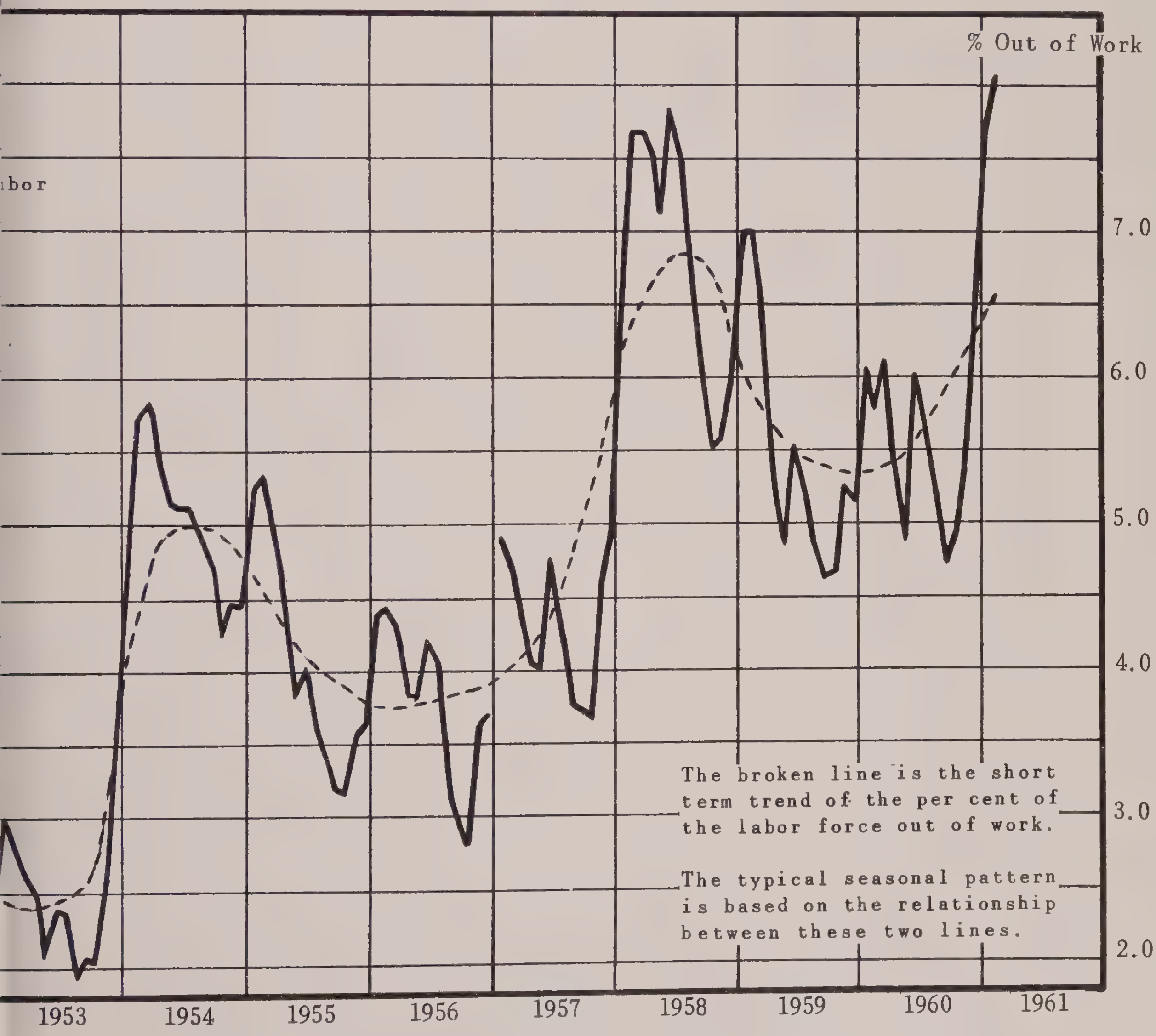
Note: As we go to press, the February unemployment figures are available. In February, 8.11% (5.7 million persons) were out of work, an actual monthly increase of 3% in terms of per cent of trend, which compares favorably to the "typical" increase of 5% for February.

---

e of people out of work is put in on the art at the high figure of 6.5% for January 61. This situation is serious, but, two ints need to be mentioned to clear the air a ttle.

First, these figures are national, and present the entire country. Some local tuations are worse than is shown by the art, and *some local situations are better.* do not mean to imply that the areas of large employment do not need attention. But, it refreshing to remember the good while aling with the bad.

Second, some newscasts recently have been making vague comparisons between the current unemployment and the situation during the thirties. On the chart you can see the January, 1961 plot at 7.71%. This is the percentage of people out of work in January. Do you know the 1933 percentage? It was 24.9%. One out of every four people didn't work in that year, on the average. The chart shown here would have to be three times as high as it is now to accomodate the points from the thirties. Moreover, in the thirties, for four years *in a row* unemployment was over 20%. There is just no comparison between 1961 and 1930—40. *G. S.*



The broken line is the short term trend of the per cent of the labor force out of work.

The typical seasonal pattern is based on the relationship between these two lines.

THE LABOR FORCE OUT OF WORK

MEMO: 1961 Egg Prices

If the two cycles we have isolated in egg prices continue to dominate in the near future as they have in the recent past, then we may see an unusual softness develop in egg prices during the early part of 1961.

The decline from the very high levels of the last three months of 1960 to the usual spring low in May 1961 may be greater than would be expected on a strictly seasonal basis because the 26.5-month cycle is also declining. The 26.5-month cycle bottom is due, on the average, at May, 1961, and we may see the combined effect of the seasonal declining to a May low and the 26.5-month cycle also declining to a May low at the same time.

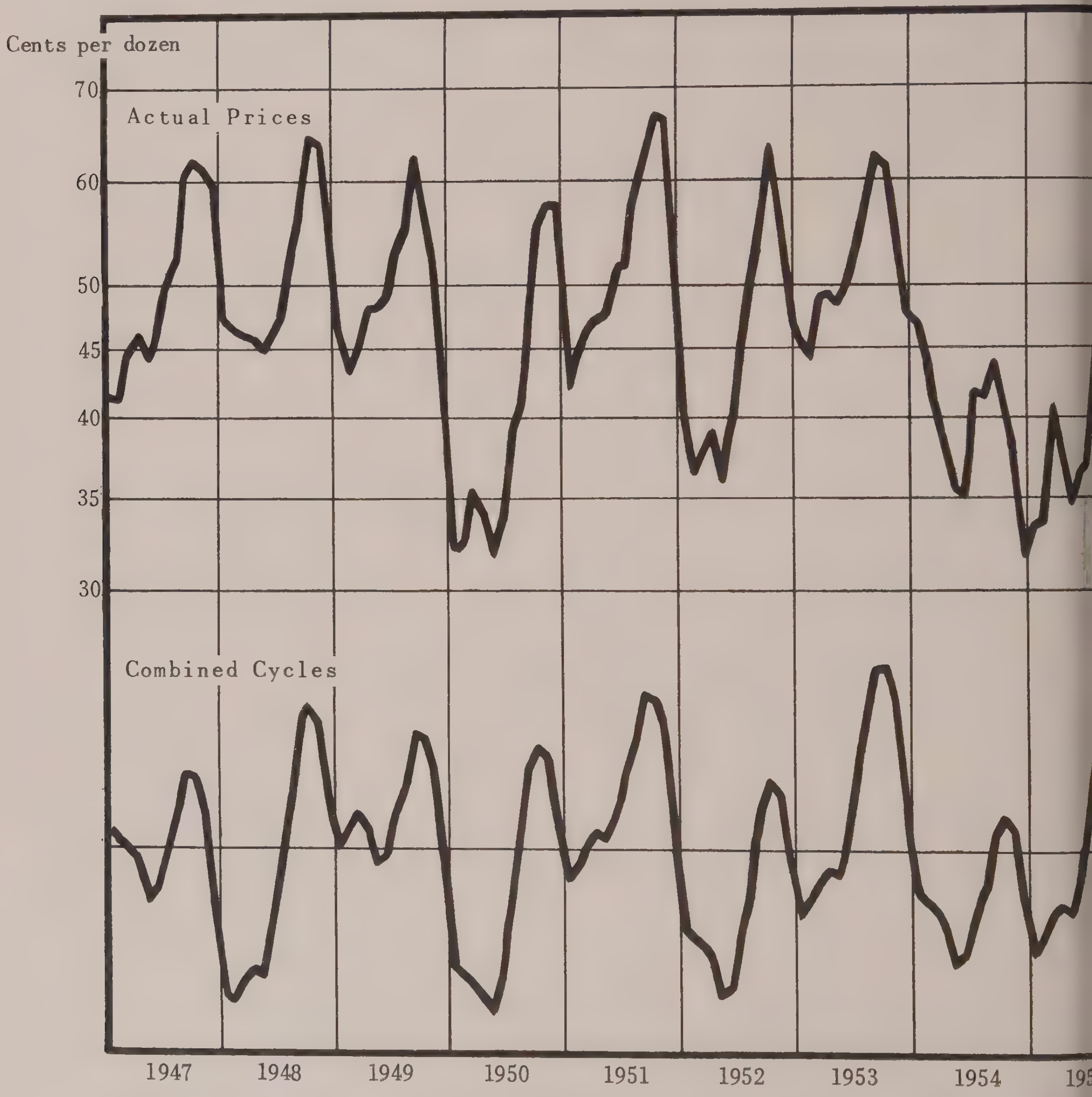


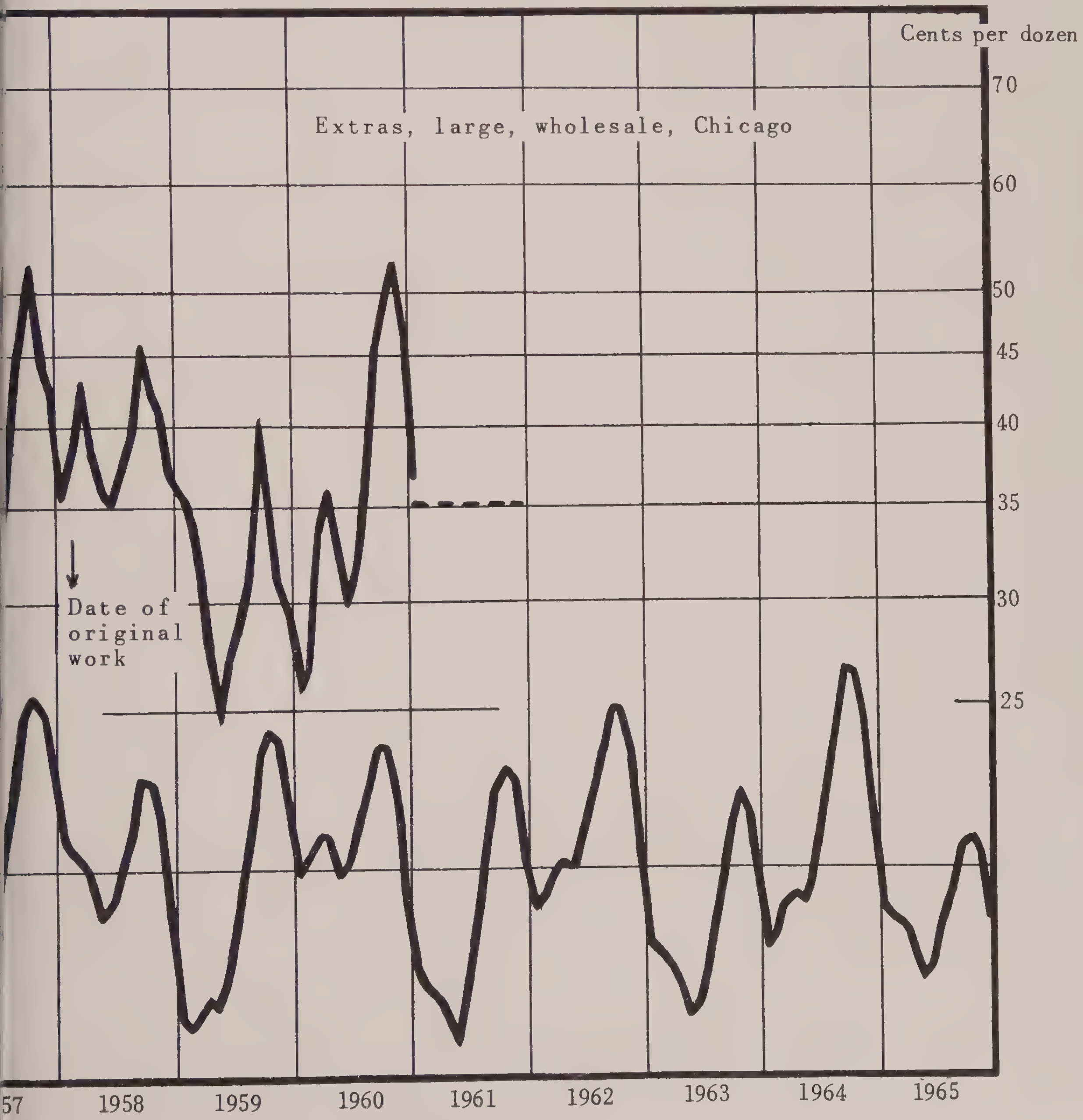
FIG. 1: THE PRICE OF EGGS COMPARED TO THE COMBINED 26.

The combined cycles are shown on the chart elow by the bottom line. Trend is level at 00% in this illustration and the variation s shown as percentages above and below trend—hatever trend may be.

The top line on the chart gives the record f actual egg prices. The figures we use are onthly averages of the price of extras, large, holesale, at Chicago.

The work on these cycles was done in early 958, using figures which ended with February f that year. The correspondence between the two lines—actual prices and combined cycles—was excellent over the January 1947—February 1958 period. But the real test of the usefulness of the analysis is how reliable the combined cycle line has been as an indication of actual price movements over the period since the analysis was made.

In 1958, when the 26.5-month cycle was at a peak level (there was a high due, on the average, at February 1958) the usual spring low in actual prices was a "high" low. But, in 1959, when the 26.5-month cycle was near a low point (the ideal low came at March), an



TH CYCLES, 1947—1960

unusually "low" low developed during the early months of that year.

In 1960, the actual price of eggs went down farther during the spring months than would have been anticipated, but this drop was followed by a quick and strong recovery.

I think it is fair to say that the contour of the two lines has been roughly the same since February 1958. At the very least, it has been good enough to justify the statement that if you are interested in the price of eggs over the next year or so you should at least be aware of the course which the combined cycle line takes over the period.

One of the non-cyclic factors which enters any serious consideration of egg prices is pointed up by Figure 1. If you look at the line of actual prices beginning with 1950 you will see that the general drift of the line since 1950 has been steadily downward. This downtrend may have reached a bottom at 1959. A knowledge in depth of the egg business would be necessary before you could account for this trend, explain its possible ending in 1959, and reach a really good conclusion about its probable future course.

In spite of the fact that I can only use a trend that looks *reasonable* to me, I have added a possible trend level for 1961. It is shown as the horizontal broken line at 35 cents on Figure 1.

This reasonable-looking trend and the two cycles are combined into one figure to get some idea of the possible level of egg prices in 1961, assuming other things are equal. The combination is shown below on Figure 2 for the current period as a broken line. Actual egg prices are shown by the solid line.

It is altogether possible that the trend at 35 cents is too low or too high—you may have a different idea. It is possible to arrive at a different combination line on Figure 2 by changing the trend. The contour of the line through 1961 will not change, but the level, and possibly the direction, would change as you changed the trend.

At any rate, using the 35-cent trend and the two cycles, we have on Figure 2 the conclusion that the spring low in egg prices may be at least as low as last year's. In addition, the fall peak will probably not exceed the 1960 levels, if the cycles continue. *G.S.*

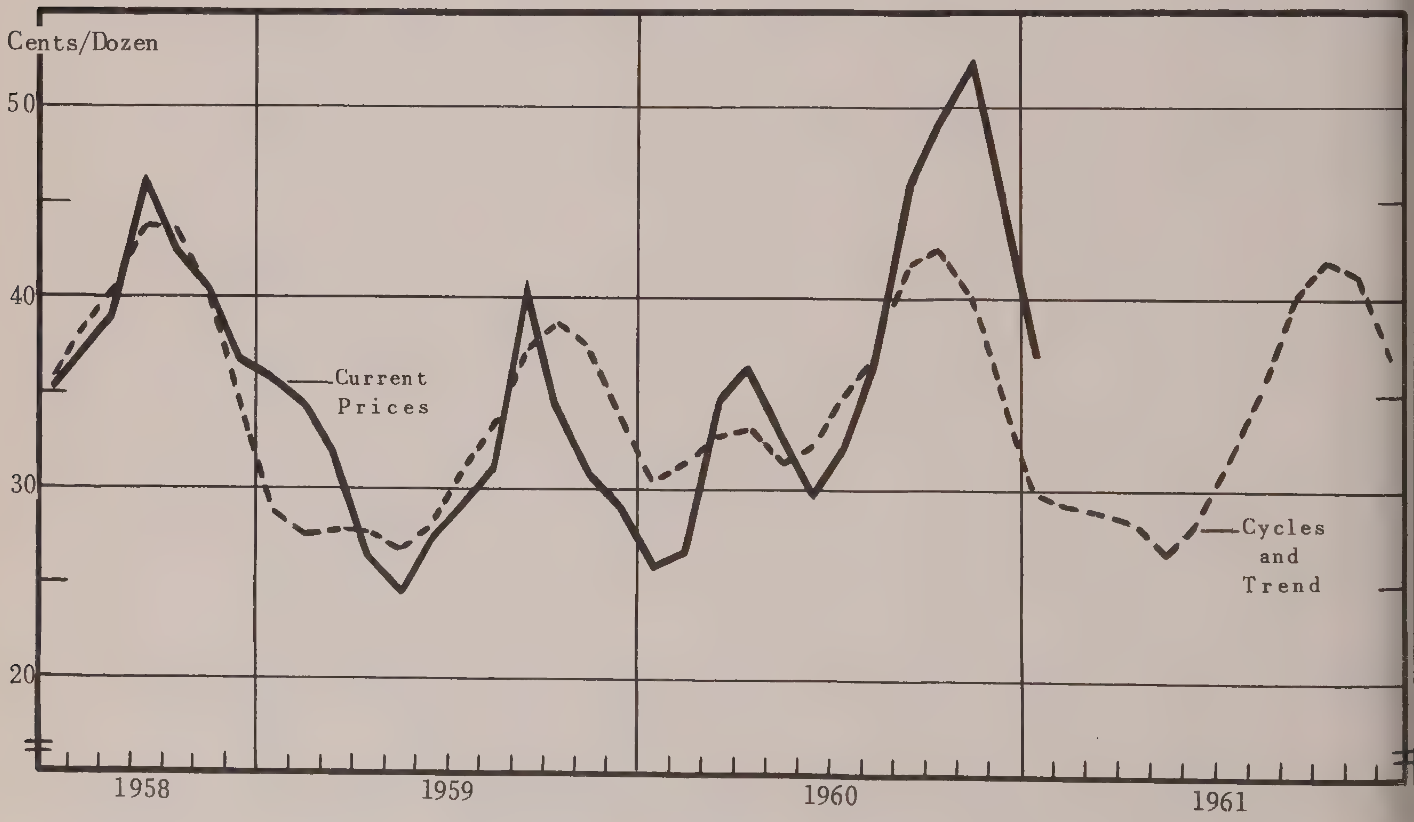


FIG. 2: THE PRICE OF EGGS COMPARED TO COMBINED TREND AND CYCLES, 1958—1961

THE GEISINGER INDICATOR

The Indicators stop going down:

Although production, as measured by the Federal Reserve Board Index, continued to decline in January, the Geisinger Indicator has halted its decline, and moved up a little. This is the first glimmer of light we have seen on the business horizon in four months. But it is only a glimmer; it is not yet a steady ray of light.

The FRB Production Index, after adjustment for seasonal variation, was 155 in January, which is a total decline of 12 points, or 7.2% from the peak of last May.

The Geisinger Indicator went up from -3.00 in September to -2.40 in October (June 1961 when advanced).

The First Difference Indicator, which shows the rate of decline in production, held steady at -1.83. Although the rate of decline has been steady for three months in a row, at least it has not worsened as would be apt to happen at the time of a serious recession.

The Modified Geisinger Indicator, which combines the Geisinger Indicator and the First Difference Indicator, went up to -4.23 in October (June 1961 when advanced).

We need a +2.00 on the Geisinger Indicator before we can take down the danger flag we have been flying since January, 1960. But before the Indicator can go up to +2.00 it has to stop declining, and level out or turn up. This much has happened.

March 1, 1961 E. R. Dewey

The recent figures:

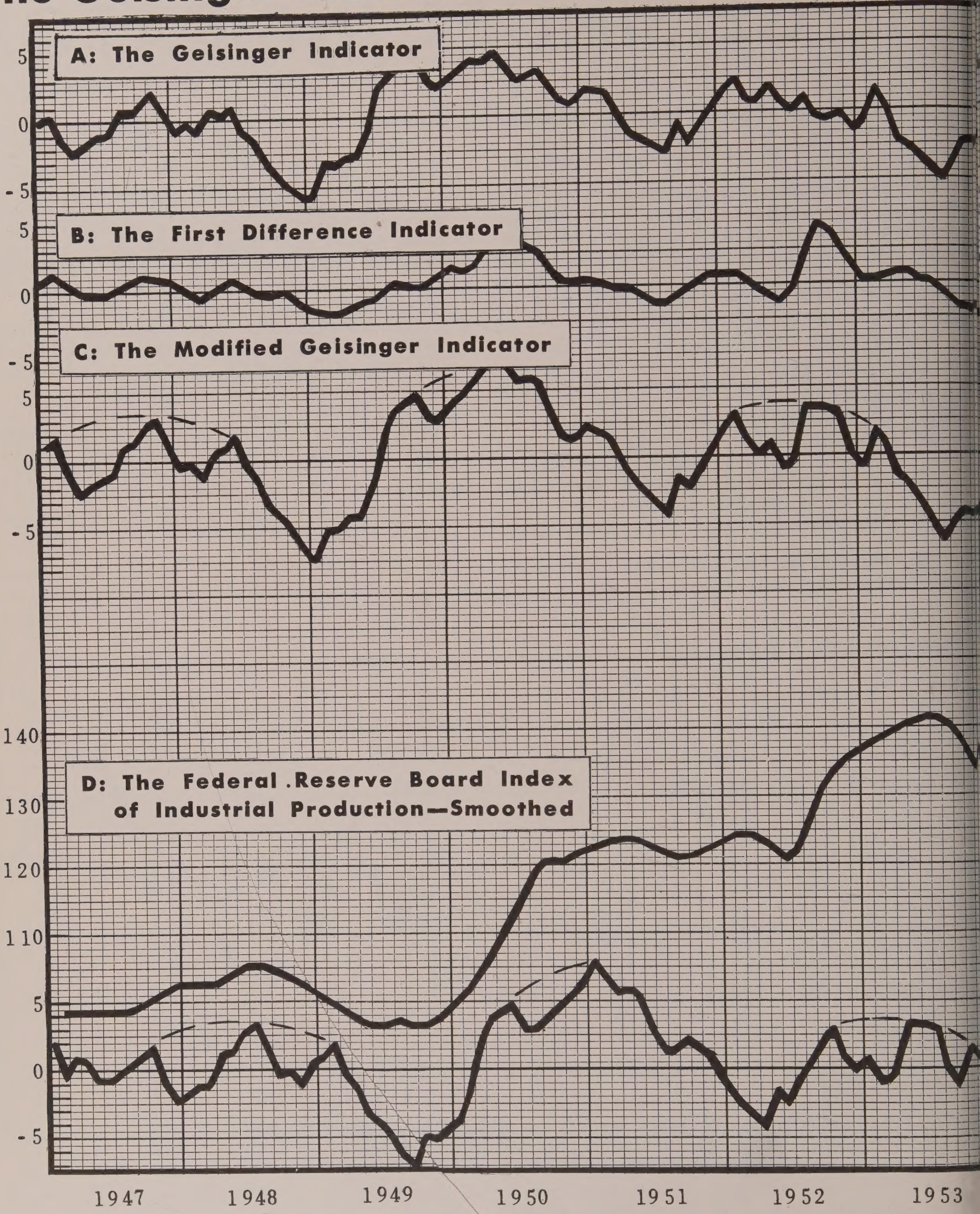
Month	F.R.B. Index	Geisinger Indicator	First Difference Indicator	Modified Geisinger Indicator	Timing Advanced 8 Months
Jan-1960	168	-2.80 D.S.	4.16	1.36	1960-Sep
Feb	166	-1.60	2.00	0.40	Oct
Mar	166	-2.20 D.S.	-0.33	-2.53	Nov
Apr	165	-2.00	-0.33	-2.53	Dec
May	167	-0.20	0.16	-0.04	1961-Jan
Jun	166	0.20	0.17	0.37	Feb
Jul	166	0.00	-0.17	-0.17	Mar
Aug	165	-2.20 D.S.	-1.00	-3.20	Apr
Sep	162	-3.00	-1.50	-4.50	May
Oct	161	-2.40	-1.83	-4.23	Jun
Nov	159	*	-1.83 r	*	Jul
Dec	157r	*	-1.83 p	*	Aug
Jan-1961	155p	*	*	*	Sep

r - revised; p - preliminary; D.S. - danger signal; * - not yet available

For $3 a year extra members can get the Geisinger Indicator text and figures by first-class mail immediately after it is written. This service saves you the month that it takes to print and mail Cycles.

The chart: See the next two pages

The Geisinger Indicator Compared To Industr



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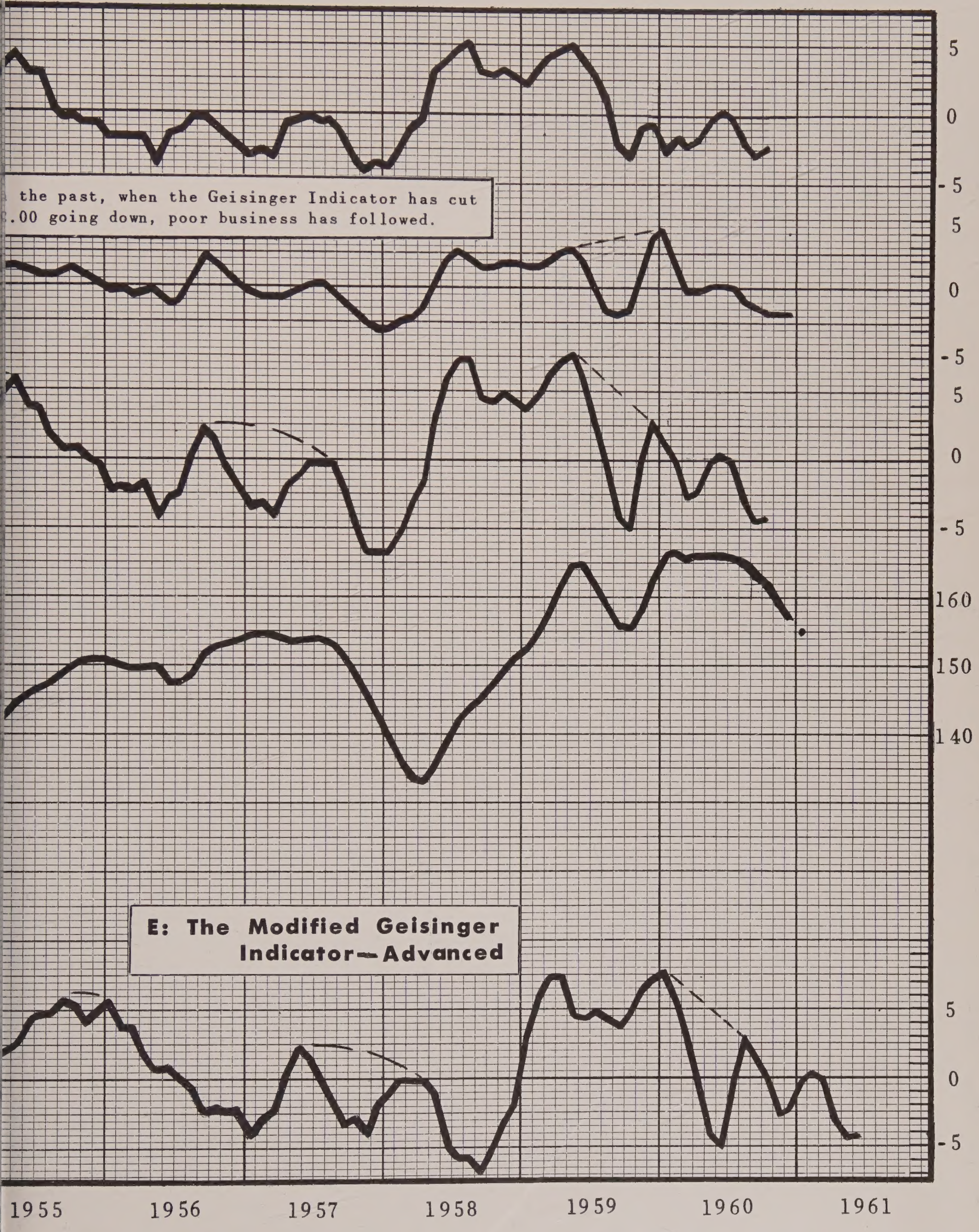

the past, when the Geisinger Indicator has cut .00 going down, poor business has followed.

E: The Modified Geisinger Indicator—Advanced

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